

STD. XII



Target Publications® Pvt. Ltd.

Precise **ECONOMICS**

Std. XII

Maharashtra State Board

Salient Features:

- ☞ Based on the Latest Textbook
- ☞ Exhaustive content coverage in Question and Answer format
- ☞ ‘Smart Codes’ to memorise answers
- ☞ ‘For your understanding’ section for conceptual clarity
- ☞ Replete with practical and real life examples
- ☞ Tagging of relevant board questions upto March 2022 exam
- ☞ Chapter Assessment with answers at the end of every chapter for self-evaluation via QR Code

Printed at: **Print to Print**, Mumbai

© Target Publications Pvt. Ltd.

No part of this book may be reproduced or transmitted in any form or by any means, C.D. ROM/Audio Video Cassettes or electronic, mechanical including photocopying; recording or by any information storage and retrieval system without permission in writing from the Publisher.

PREFACE

Target's 'Precise Economics: Std. XII' - is a book curated to help the students study to-the-point for their board exams. The book is replete with practical examples which will instil conceptual understanding within students as they study from the book.

This book covers answers to all textual questions. However, we have also covered extra questions in each lesson with the aim of covering the entire topic and providing more practice. Throughout this book, questions are answered in a detailed, point-wise format which is exactly how the students are expected to write their answers in the exam. Multiple objective type questions have also been covered to help students get sufficient practice in all types of questions.

We have incorporated 'Smart Codes' to facilitate easy answer recall. 'For your understanding' section provides the required conceptual clarity to understand a particular point. 'We're sure that students, parents and teachers alike would love our value proposition, content quality and the presentation of content.

Publisher

Edition: First

The journey to create a complete book is strewn with triumphs, failures and near misses. If you think we've nearly missed something or want to applaud us for our triumphs, we'd love to hear from you.

Please write to us at: mail@targetpublications.org

Disclaimer

This reference book is transformative work based on 'Economics; Second Reprint: 2022' published by the Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune. We, the publishers are making this reference book which constitutes as fair use of textual contents which are transformed by adding and elaborating, with a view to simplify the same to enable the students to understand, memorize and reproduce the same in examinations.

This work is purely inspired upon the course work as prescribed by the Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune. Every care has been taken in the publication of this reference book by the Authors while creating the contents. The Authors and the Publishers shall not be responsible for any loss or damages caused to any person on account of errors or omissions which might have crept in or disagreement of any third party on the point of view expressed in the reference book.

© reserved with the Publisher for all the contents created by our Authors.

No copyright is claimed in the textual contents which are presented as part of fair dealing with a view to provide best supplementary study material for the benefit of students.

PAPER PATTERN

Marks: 80

Time: 3.00 Hrs.

Q. No.	Questions	Marks as per Que.	No. of Questions to Attempt	Marks without option	Marks with option
1.	From the following types of sub questions, any 4 will be asked.				
	1. Choose the correct option.	1	5	5	5
	2. Complete the correlation.	1	5	5	5
	3. Give economic term.	1	5	5	5
	4. Find the odd word out.	1	5	5	5
	5. Complete the following statements.	1	5	5	5
	6. Choose the wrong pair.	1	5	5	5
	7. Assertion and reasoning questions	1	5	5	5
	8. Identify the right group of pairs from the given option.	1	5	5	5
2.	A. Identify and explain the concept.	2	Any (3) Out of (5)	6	10
	B. Distinguish between.	2	Any (3) Out of (5)	6	10
3.	Answer the following questions.	4	Any (3) Out of (5)	12	20
4.	State with reasons whether you agree or disagree with the following statements.	4	Any (3) Out of (5)	12	20
5.	Study the following table, figure, passage and answer the questions given below it.	4	Any (2) Out of (3)	8	12
6.	Answer in detail.	8	Any (2) Out of (3)	16	24
	Total Marks			80	116

Question Wise Distribution of Marks

Sr. No.	Types of Question	Net Marks	Marks With Option	Percentage
1.	Objective	20	20	25%
2.	Very Short	12	20	15%
3.	Short Answer	32	52	40%
4.	Long Answer	16	24	20%
	Total	80	116	100%

INDEX

Sr. No.	Titles	Total Marks	Marks with option	Page No.
1.	Introduction to Micro-economics and Macro-economics	07	10	1
2.	Utility Analysis	07	10	14
3A.	Demand Analysis	08	12	33
3B.	Elasticity of Demand	08	12	53
4.	Supply Analysis	07	10	75
5.	Forms of Market	07	10	97
6.	Index Numbers	08	11	112
7.	National Income	08	12	128
8.	Public Finance in India	08	12	146
9.	Money Market and Capital Market in India	08	11	162
10.	Foreign Trade of India	04	06	180
	Board Question Paper – March 2022	-	-	190
	Total	80	116	

Scan the adjacent QR Code in **Quill - The Padhai App** to view **Question Paper and Solution of March 2023**.



- Note:**
1. All textual questions are represented by (T) mark.
 2. At the start of each chapter, we have provided a chapter index to enable the students to get an overview of the chapter. We have also marked the years in which the questions have been previously asked. Kindly note that this marking is only indicative and not exhaustive.

Scan the adjacent QR Code to know more about our **“Supplementary Questions Book”** for Std. XII (Comm). Get sufficient practice of all objective questions across all subjects.



Scan the adjacent QR Code to know more about our **“HSC 30 Question Papers & Activity Sheets with Solutions”** for Std. XII (Comm). Gear up yourself to score more in the XII Board Examination.



SR. NO.	PARTICULARS	BOARD EXAM
1.	Give a historical review of micro-economics and macro-economics.	
2.	Explain the scope of micro-economics.	Mar' 18, '16, '14
3.	Explain the features of micro-economics. (T)	July' 18, '17, Mar' 16
4.	Explain the importance of micro-economics. (T)	Mar' 20, '19, July' 17, Mar' 17
5.	Explain the scope of macro-economics. (T)	Mar' 22, 20, July' 18, Mar' 14
6.	Explain the concept of macro-economics and its features. (T)	Mar' 19, '18, '17, July' 17
7.	Explain the importance of macro-economics. (T)	
8.	Distinguish between:	
9.	Objective Questions	
10.	Chapter Assessment	

• **MICRO-ECONOMICS AND MACRO-ECONOMICS**

- 1) Micro-economics and Macro-economics are the two main branches of modern economics.
- 2) The term 'micro' is derived from the Greek word 'Mikros' which means small or a millionth part.
- 3) The term 'macro' is derived from the Greek word 'Makros' which means large.
- 4) These terms were coined by Norwegian Economist Ragnar Frisch of Oslo University in 1933.

Terms	Derived from the Greek word	Which means
Micro	Mikros	Small or millionth part
Macro	Makros	Large



Q.1. Answer the following

1. Give a historical review of micro-economics and macro-economics.

Ans: Micro-economics and Macro-economics are the two main branches of modern economics. The term 'micro' is derived from the Greek word 'Mikros' which means small or a millionth part. The term 'macro' is derived from the Greek word 'Makros' which means large. These terms were coined by Norwegian Economist Ragnar Frisch of Oslo University in 1933.

HISTORICAL REVIEW OF MICRO-ECONOMICS

- 1) **Micro-economic analysis was developed first** and it is a traditional approach.
- 2) Origin of this approach can be traced back to the era of Classical Economists such as Adam Smith, David Ricardo, J. S. Mill etc.
- 3) **It was popularised by Neo-Classical Economist, Prof. Alfred Marshall in his book 'Principles of Economics' published in 1890.**
- 4) Other economists like Prof. Pigou, J.R. Hicks, Prof. Samuelson, Mrs. Joan Robinson etc. have also contributed to the development of Micro-economics.

HISTORICAL REVIEW OF MACRO-ECONOMICS

- 1) **Macro-economics existed in the past before the evolution of Micro-economics.**
- 2) In the 16th and 17th century, Mercantilists (a group of English merchants) advocated policies to the government which were based on macro approach.
- 3) In the 18th century, Physiocrats (French Thinkers) tried to analyse the concept of national income and wealth.
- 4) Even the Classical Economic theories of Prof. Adam Smith, Prof. Ricardo and Prof. J. S. Mill discussed the determination of national income and wealth. However, their macro analysis was combined with micro analysis.
- 5) Thus, micro analysis ruled the world of Economics till the Great Depression of 1930s.
- 6) **After the Great Depression, Lord John Maynard Keynes published his famous book the "General Theory of Employment, Interest and Money" in 1936.**
- 7) Lord Keynes used macro-economic approach to analyse economic problems.
- 8) **The credit for the development of macro-economic approach goes to Lord Keynes.**



- 9) Besides Lord Keynes, Malthus, Wicksell, Walras, Irving Fisher are other economists who have contributed to the development of macro-economics.

• **MEANING OF MICRO-ECONOMICS (Mar' 20)**

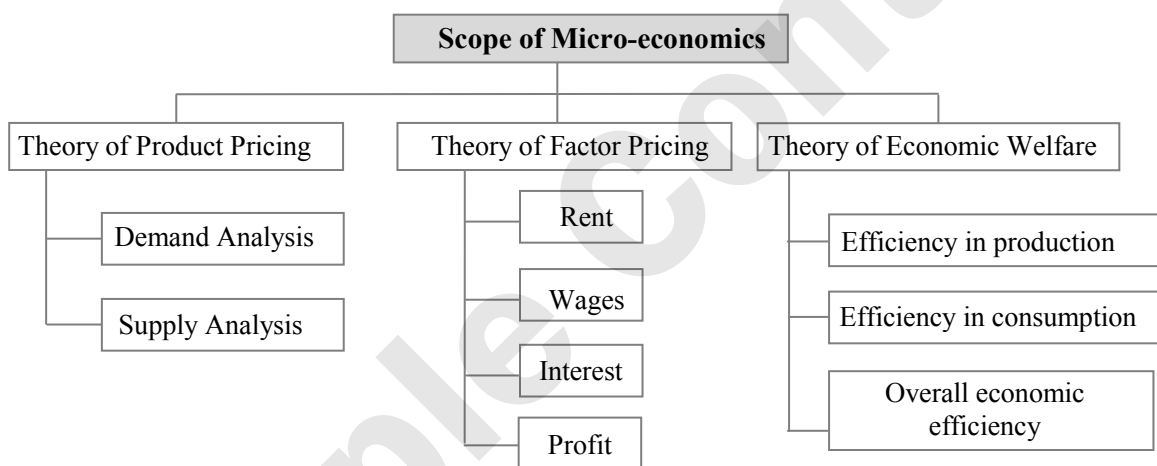
- 1) Micro means a small part of a thing.
- 2) Micro-economics thus deals with a small part of the national economy.
- 3) It studies the individual economic units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.
- 4) In simple terms, it is examination of the 'tree' and not the 'forest'.

• **DEFINITIONS OF MICRO-ECONOMICS (Mar' 20)**

- 1) **Maurice Dobb:** "Micro-economics is in fact a microscopic study of the economy."
- 2) **Prof. A. P. Lerner:** "Micro-economics consists of looking at the economy through a microscope, as it were, to see how the millions of cells in the body of economy – the individuals or households as consumers and individuals or firms as producers play their part in the working of the whole economic organism."

2. Explain the scope of micro-economics. (Mar' 18, '16, '14)

Ans: Micro-economics is a branch of modern economics. Micro-economics deals with a small part of the national economy. It studies the individual economic units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.



The scope of micro-economics can be explained with the following points:

1) THEORY OF PRODUCT PRICING

The price of an individual commodity is determined by the market forces of demand and supply. Micro-economics is concerned with demand analysis i.e. individual consumer behaviour and supply analysis i.e. individual producer behaviour. **The theory of product pricing explains how the price of a commodity is determined.**

2) THEORY OF FACTOR PRICING

Land, labour, capital and entrepreneur are all factors of production and contribute to the process of production. For this contribution, they get rewards in the form of rent, wages, interest and profits, respectively. **The theory of factor pricing explains how the factor prices (or rewards) are determined.**

3) THEORY OF ECONOMIC WELFARE

Theory of Economic Welfare basically deals with the efficiency in allocation of resources. Efficiency in the allocation of resources is attained when it results in maximisation of satisfaction of people. Economic efficiency involves three efficiencies:

i. Efficiency in production:

Efficiency in production means producing maximum possible amount of goods and services from the given amount of resources.

ii. Efficiency in consumption:

Efficiency in consumption means distribution of produced goods and services among the people for consumption in such a way as to maximise total satisfaction of the society.



iii. **Overall economic efficiency:**

Overall efficiency means the production of those goods which are most desired by people.

Micro-economic theories show under what conditions these efficiencies are achieved.

Thus, we can conclude that the scope of Micro-economics is limited to price theory (factor pricing and product pricing) and allocation of resources. It does not study the aggregates relating to the whole economy.

3. Explain the features of micro-economics. (July' 18, '17, Mar' 16)

T

Ans: Micro-economics is a branch of modern economics. Micro-economics deals with a small part of the national economy. It studies the individual units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.

The following are the features of micro-economics:

SMART CODE

P

A

S

S

P

B

U

S

1) **PRICE THEORY**

Micro-economics deals with the determination of prices of goods and services as well as factors of production. Hence, it is known as price theory.

2) **ANALYSIS OF MARKET STRUCTURE**

Micro-economics analyses different market structures like perfect competition, monopoly, oligopoly, monopolistic competition etc.

3) **SLICING METHOD**

Micro-economics uses slicing method. It splits or divides the entire economy into small individual units and then studies each unit separately in detail. **E.g.:** study of individual income out of national income, study of individual demand out of aggregate demand etc.

4) **STUDY OF INDIVIDUAL UNITS**

Micro-economics is the study of the behaviour of small individual economic units like individual firm, individual price, individual household etc.

5) **PARTIAL EQUILIBRIUM**

Equilibrium means the balance between two factors. Micro-economics studies the behaviour of individual economic units like individual firm, individual consumer, individual household etc. However, while doing so, it isolates the individual unit from other forces and studies its equilibrium independently. Hence, micro-economics deals with partial equilibrium.

6) **BASED ON CERTAIN ASSUMPTIONS**

Micro-economic laws begin with the fundamental assumption, "Other things being constant" (Ceteris Paribus). Micro-economics assumes perfect competition, laissez-faire policy (minimal government intervention), pure capitalism, full employment etc. These assumptions are unrealistic. However, they make the analysis simple.

FOR YOUR UNDERSTANDING

Ceteris Paribus is a Latin phrase. Its English translation is "Other things being equal or constant".

7) **USE OF MARGINALISM PRINCIPLE**

The concept of 'marginalism' is the key tool in micro-economic analysis. The term 'marginal' means a change brought about in the total by an additional unit. Marginal analysis helps to study a variable through the changes. Producers and consumers take economic decisions using this principle.

8) **SCOPE IS LIMITED**

The scope of micro-economics is limited to only individual units. It doesn't deal with nationwide economic problems like inflation, deflation, balance of payments, poverty, unemployment, population, economic growth etc.

4. Explain the importance of micro-economics. (Mar' 20, '19, July' 17, Mar' 17)

T

Ans: Micro-economics is a branch of modern economics. Micro-economics deals with a small part of the national economy. It studies the individual units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.



The following points explain the importance of micro-economics:

SMART CODE
P U B
F R E E
1) PRICE DETERMINATION

Micro-economics explains how the prices of different products and various factors of production are determined. It is also known as price theory.

2) UNDERSTANDING WORKING OF FREE MARKET ECONOMY

A free market economy refers to an economy where the economic decisions regarding:

i. What to produce?

ii. How much to produce?

iii. How to produce? etc.

are taken at individual level. There is no intervention by the government or any other agency in decisions regarding the production. Micro-economics helps in understanding the working of such free market economy.

3) BUSINESS DECISIONS

Micro-economic theories are helpful to businessmen for taking crucial business decisions like determination of price of goods, determination of cost of production, maximisation of output and profit etc.

4) FORMS BASIS OF WELFARE ECONOMICS

Resources are scarce and the government must allocate these resources properly for ensuring maximum social welfare. Micro-economic analysis helps the government in optimal allocation and utilisation of scarce resources in order to achieve maximum welfare. It also studies how taxes affect social welfare.

5) REQUIRED BY GOVERNMENT

Micro-economics is useful to government in framing economic policies such as taxation policy, public expenditure policy, price policy etc. These policies help the government to attain its goals of efficient allocation of resources and economic welfare of the society.

6) EXPLAINS ASPECTS OF FOREIGN TRADE

Micro-economics explains various aspects of foreign trade like effects of tariff on a particular commodity, determination of foreign exchange rates of any two countries, gains from international trade to a particular country etc.

7) ECONOMIC MODEL BUILDING

Micro-economics helps in understanding various complex economic situations by way of simple economic models. Economic models are built using various economic variables. Micro-economics has also helped in development of various terms, concepts, terminologies and tools of economic analysis.

FOR YOUR UNDERSTANDING

Economic models generally consist of a set of mathematical equations that describe economic behaviour. Some examples of economic models are the production possibility frontier, the Keynesian IS/LM model, and the Mundell-Fleming model.

• MEANING OF MACRO-ECONOMICS

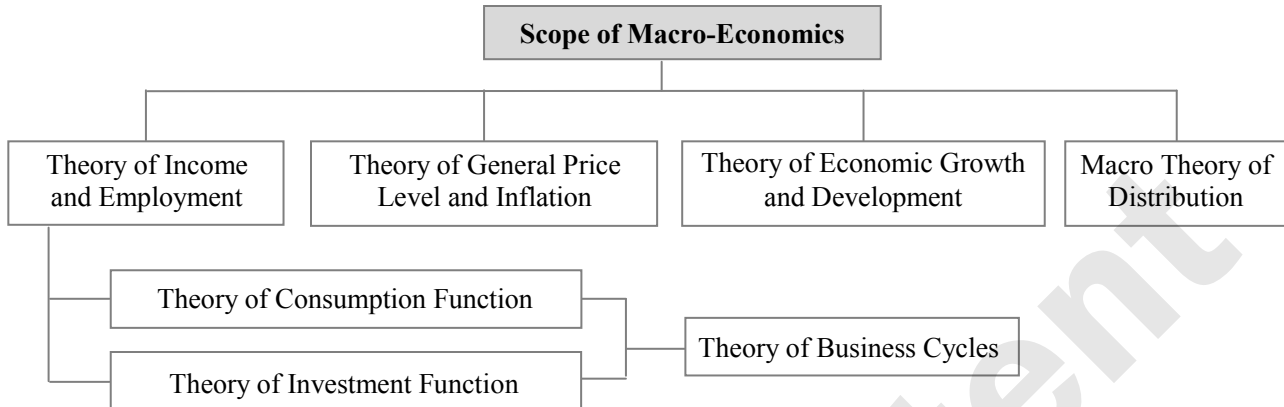
- 1) Macro-economics is the branch of economics which analyses the entire economy.
- 2) It deals with the total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, inflation, trade cycles, business fluctuations etc.
- 3) Thus, macro-economics is the study of aggregates.

• DEFINITIONS OF MACRO-ECONOMICS

- 1) **J. L. Hansen:** "Macro-economics is that branch of economics which considers the relationship between large aggregates such as the volume of employment, total amount of savings, investment, national income etc."
- 2) **Prof. Carl Shapiro:** "Macro-economics deals with the functioning of the economy as a whole."


5. Explain the scope of macro-economics. (Mar' 22, 20, July' 18, Mar' 14)
T

Ans: Macro-economics is the branch of economics which analyses the entire economy. It deals with the total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, trade cycles, business fluctuations etc.



The scope of macro-economics can be explained with the following points:

1) THEORY OF INCOME AND EMPLOYMENT

- i. Macro-economic analysis explains which factors determine the level of national income and employment in the country. It also explains the causes of fluctuations in income, output and employment.
- ii. Therefore, Macro-economics is also called as “Theory of Income and Employment”.
- iii. In order to understand what determines the level of employment in the country, the following needs to be studied:
 - a. Consumption function
 - b. Investment function
- iv. **The Theory of Business Cycles is also a part and parcel of Theory of Income and Employment.**

2) THEORY OF GENERAL PRICE LEVEL AND INFLATION

Macro-economic analysis shows how the general price level in the economy is determined. It further explains what causes fluctuations in it. The study of general price level is important on account of problems created by inflation and deflation.

3) THEORY OF ECONOMIC GROWTH AND DEVELOPMENT

Macro-economics consists of the theory of economic growth and development. It explains the causes of underdevelopment and poverty. It also suggests strategies for accelerating growth and development.

4) MACRO THEORY OF DISTRIBUTION

The macro theory of distribution deals with the relative shares of rent, wages, interest and profits in the total national income.

6. Explain the concept of macro-economics and its features. (Mar' 19, '18, '17, July' 17)
T

Ans: Macro-economics is the branch of economics which analyses the entire economy. It deals with the total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, trade cycles, business fluctuations etc.

The following are the features of macro-economics:

SMART CODE
G
I
G
I
G
P
L
S
1) GENERAL EQUILIBRIUM ANALYSIS (Mar' 20)

Equilibrium means the balance between two factors. Macro-economics studies the behaviour of large aggregates like aggregate demand, aggregate supply, national income, total investment etc. It studies the equilibrium of these variables as a whole, taking into account the other market forces. Hence, macro-economics deals with general equilibrium.

E.g.: Macro-economics explains how equilibrium is achieved between aggregate demand and aggregate supply and how it determines price level in the economy.



2) **INTERDEPENDENCE**

Macro analysis takes into account the interdependence between aggregate economic variables such as income, output, employment, investments, price level etc.

E.g.: Changes in the level of investment will finally result into changes in the levels of income, output, employment and eventually the level of economic growth.

3) **GENERAL PRICE LEVEL**

General price level is the average of all prices of goods and services currently being produced in the economy. Macro-economics studies how the general price levels are determined and the causes for their fluctuation.

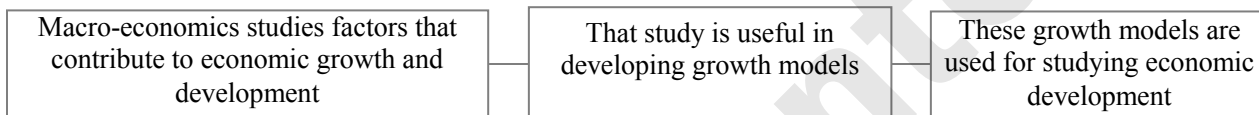
4) **INCOME THEORY**

Macro-economics studies the concept of national income, its different elements, methods of measurement and social accounting. It also explains the causes of fluctuations in national income, which lead to business cycles, i.e. inflation and deflation.

5) **GROWTH MODELS**

Macro-economics studies various factors that contribute to economic growth and development. It is useful in developing growth models. These growth models are used for studying economic development.

E.g.: Mahalanobis growth model focused on basic heavy industries.



6) **POLICY-ORIENTED**

According to Keynes, macro-economics is a policy-oriented science. It suggests suitable economic policies to promote economic growth, generate employment, control inflation and depression etc.

7) **LUMPING METHOD**

Macro-economics deals with macro-variables like aggregate demand, aggregate supply, national output etc. Unlike micro-economics, it does not split up the economy into small slices but studies it in big lumps. Thus, it uses the lumping method. According to Prof. Boulding, "Forest is an aggregation of trees, but it does not reveal the properties of an individual tree." Macro-economics is said to study the forest as opposed to micro-economics which studies individual trees.

8) **STUDY OF AGGREGATES**

Macro-economics deals with the study of the economy as a whole. It is concerned with the aggregate concepts such as national income, national output, national employment, general price level, business cycles etc.

7. Explain the importance of macro-economics. T

Ans: Macro-economics is the branch of economics which analyses the entire economy. It deals with the total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, trade cycles, business fluctuations etc.

The following points explain the importance of macro-economics:

1) **UNDERSTANDING FUNCTIONING OF ECONOMY**

Macro-economic analysis gives us an idea about the functioning of an economic system. It also helps to understand the behavioural pattern of aggregate variables in a large and complex economic system.

2) **ANALYSES ECONOMIC FLUCTUATIONS**

Macro-economics helps to analyse the causes of fluctuations in income, output and employment. It also makes an attempt to control the fluctuations or reduce their severity.

3) **NATIONAL INCOME**

The study of macro-economics has highlighted the importance of studying national income and social accounts. Without a study of national income, it is not possible to formulate correct economic policies.

FOR YOUR UNDERSTANDING

Social accounts refer to the process of measuring, monitoring and reporting to stakeholders the social and environmental effects of government's actions.



4) **STEPS FOR ECONOMIC DEVELOPMENT**

Advanced studies in macro-economics help to understand the problems of developing countries such as poverty, inequalities of income and wealth, differences in standard of living etc. It suggests important steps to achieve economic development.

5) **PERFORMANCE OF AN ECONOMY**

Macro-economics helps us to analyse the performance of an economy. National Income (NI) estimates are used to measure the performance of an economy by comparing the production of goods and services in one period with that of the other period.

6) **STUDY OF MACRO-ECONOMIC VARIABLES**

To understand the working of an economy, study of macro-economic variables is important. Main economic problems are related to the economic variables such as behaviour of total income, output, employment and general price level in the economy.

7) **LEVEL OF EMPLOYMENT**

Macro-economics helps to analyse the general level of employment and output in an economy.



Q.2. Distinguish between

1. **Micro-economics and Macro-economics (Mar' 19, July' 18, '17, Mar' 16, Oct' 15, '14)**

Ans:

Micro-economics	Macro-economics
1) Micro-economics deals with a small part of national economy. It studies the individual units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.	1) Macro-economics analyses the entire economy. It deals with total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, inflation, trade cycles, etc.
2) Micro-economics is a study of micro variables.	2) Macro-economics is a study of macro variables or aggregates.
3) It uses slicing method.	3) It uses lumping method.
4) Micro-economic analysis is based on partial equilibrium analysis. It neglects the interdependence between economic variables.	4) Macro-economic analysis is based on general equilibrium analysis. It studies the functional relationship and interdependence between economic variables.
5) The scope of micro-economics is narrow or limited.	5) The scope of macro-economics is wide.
6) It deals with determination of factor prices as well as prices of goods and services. Hence, it is also called as price theory.	6) It explains what determines level of national income and employment and what causes fluctuations in them. Hence, it is also called theory of income and employment.

2. **Slicing Method and Lumping Method (Mar' 22, '20, '18, '15)**

Ans:

Slicing Method	Lumping Method
1) When the aggregate is divided into small units for the purpose of study of each unit in depth, it is called as slicing method.	1) When the economy is not split up into small slices; but it is studied in big lumps as it is, it is called as lumping method.
2) Micro-economics uses slicing method.	2) Macro-economics uses lumping method.
3) It gives a worm's eye view of the economy.	3) It gives a bird's eye view of the economy.
4) It studies in depth individual units like household, firm, consumer, producer, individual wages, individual prices, individual incomes, particular commodity etc.	4) It studies aggregates such as total employment, national income, national output, total investment, total savings, total consumption, aggregate supply, aggregate demand etc.



3. Partial Equilibrium and General Equilibrium (Oct' 21, Mar' 17, Mar' 14,)

Ans:

Partial Equilibrium	General Equilibrium
1) Partial equilibrium means an equilibrium derived by considering the effect of only two variables at a time. All other variables are considered to be constant.	1) General equilibrium means an equilibrium which is derived by considering the effect of many variables at a time.
2) It neglects the interdependence between variables.	2) It takes into account the interdependence between variables.
3) Micro-economic analysis is based on partial equilibrium analysis.	3) Macro-economic analysis is based on general equilibrium analysis.
4) It studies the equilibrium position of consumer, a firm, an industry, a market etc.	4) It studies the equilibrium position of the economy as a whole.



Objective Questions:

(A) Choose the correct option:

- The branch of economics that deals with the allocation of resources. **(T) (Oct' 21)**
 - Micro-economics
 - Macro-economics
 - Econometrics
 - None of these
 - i, ii and iii
 - i and ii
 - only i
 - None of these
- Concepts studied under Micro-economics. **(T)**
 - National income
 - General price level
 - Factor pricing
 - Product pricing
 - ii and iii
 - ii, iii and iv
 - i, ii and iii
 - iii and iv
- Method adopted in micro-economic analysis. **(T)**
 - Lumping method
 - Aggregative method
 - Slicing method
 - Inclusive method
 - i, iii and iv
 - i, ii and iv
 - only iii
 - only i
- This is not a feature of Micro-economics.
 - Income theory
 - Study of aggregates
 - Lumping Method
 - Policy oriented
 - i, ii, iii and iv
 - i, ii and iv
 - i, ii and iii
 - ii and iv
- These points explain the importance of Micro-economics.
 - Price determination
 - Economic model building
 - Useful to government
 - Performance of an economy
 - i, ii, iii and iv
 - i, ii and iii
 - i, ii and iv
 - only i
- Concepts studied under Macro-economics. **(T)**
 - Whole economy
 - Economic development
 - Aggregate supply
 - Product pricing
 - i, ii and iii
 - ii, iii and iv
 - only iv
 - i, ii, iii and iv
- This is a feature of Macro-economics.
 - Income theory
 - Study of aggregates
 - Lumping Method
 - Policy oriented
 - i, ii, iii and iv
 - i, ii and iv
 - i, ii and iii
 - ii and iv



8. These points explain the importance of Macro-economics.
- | | |
|---------------------------------|-------------------------------|
| i. Functioning of an economy | ii. Economic model building |
| iii. Basis of Welfare Economics | iv. Performance of an economy |
| a. i, ii, iii and iv | b. i and iv |
| c. i, ii and iii | d. ii and iv |

Answers:

- | | | | |
|-------|-------|-------|-------|
| 1 – c | 2 – d | 3 – c | 4 – a |
| 5 – b | 6 – a | 7 – a | 8 – b |

(B) Assertion and Reasoning – Choose the correct answer from the following:

- Assertion (A):** Micro-economics and Macro-economics are two branches of modern economics.
Reasoning (R): The terms 'Micro-economics' and 'Macro-economics' were coined by Prof. Alfred Marshall.

 - (A) is True but (R) is False.
 - (A) is False but (R) is True.
 - Both (A) and (R) are True and (R) is the correct explanation of (A).
 - Both (A) and (R) are True but (R) is not the correct explanation of (A).
- Assertion (A):** Micro-economics is known as price theory.
Reasoning (R): Micro-economics deals with the determination of prices of goods & services as well as prices of factors of production.

 - (A) is True but (R) is False.
 - (A) is False but (R) is True.
 - Both (A) and (R) are True and (R) is the correct explanation of (A).
 - Both (A) and (R) are True but (R) is not the correct explanation of (A).
- Assertion (A):** Micro-economics begins with certain assumptions like pure capitalism, full employment, perfect competition etc.
Reasoning (R): The assumptions make micro-economic analysis simpler.

 - (A) is True but (R) is False.
 - (A) is False but (R) is True.
 - Both (A) and (R) are True and (R) is the correct explanation of (A).
 - Both (A) and (R) are True but (R) is not the correct explanation of (A).
- Assertion (A):** Micro-economics uses lumping method.
Reasoning (R): Micro-economics splits or divides the whole economy into small individual units for study.

 - (A) is True but (R) is False.
 - (A) is False but (R) is True.
 - Both (A) and (R) are True and (R) is the correct explanation of (A).
 - Both (A) and (R) are True but (R) is not the correct explanation of (A).
- Assertion (A):** Micro-economics helps in understanding the working of a free market economy.
Reasoning (R): There is limited intervention by the government in a free market economy.

 - (A) is True but (R) is False.
 - (A) is False but (R) is True.
 - Both (A) and (R) are True and (R) is the correct explanation of (A).
 - Both (A) and (R) are True but (R) is not the correct explanation of (A).
- Assertion (A):** General price level is the average of all prices of goods and services in the economy.
Reasoning (R): Determination and change in general price level are studied in Macro-economics.

 - (A) is True but (R) is False.
 - (A) is False but (R) is True.
 - Both (A) and (R) are True and (R) is the correct explanation of (A).
 - Both (A) and (R) are True but (R) is not the correct explanation of (A).

- Answers:**
- | | | | |
|-------|-------|-------|-------|
| 1 – a | 2 – c | 3 – c | 4 – b |
| 5 – a | 6 – d | | |



(C) Complete the following statements by choosing the correct alternative:

- The terms Micro-economics & Macro-economics were first used by _____.
(Mar' 18, '15)
 - Adam Smith
 - Robbins
 - Ragnar Frisch
 - Marshall
- The term "micro" is derived from Greek word _____.
 - Micros
 - Mikros
 - Makros
 - Mykros
- The credit for development of macro-economic approach goes to _____.
 - Adam Smith
 - Lord Keynes
 - Ragnar Frisch
 - Alfred Marshall
- A study of _____ is micro-economics.
 - aggregate demand
 - firm
 - national income
 - whole economy
- Micro Economics is also called as _____. (July' 18)
 - Income theory
 - Price theory
 - Growth theory
 - Employment theory
- Micro economics is a _____ equilibrium approach. (Mar' 20)
 - partial
 - general
 - total
 - multi-variable
- The term "Macro" is derived from the Greek word _____.
 - Micros
 - Mikros
 - Makros
 - Mykros
- Macro-economics is a study of _____.
 - aggregates
 - firm
 - individual unit
 - factor prices
- Whole Economy is studied in _____. (Mar' 22)
 - Micro Economics
 - Macro Economics
 - Econometrics
 - Natural Sciences

Ragnar Frisch

Mikros

Lord Keynes

firm

Price theory

partial

Makros

aggregates

Macro Economics

(D) Choose the Correct pair:

1.

Group 'A'		Group 'B'	
i.	Micro Economics	a.	Profit
ii.	Macro Economics	b.	Alfred Marshall
iii.	Reward of entrepreneur (Mar' 20)	c.	Feature of Micro Economics
iv.	Partial Equilibrium	d.	Lord Keynes

(A) i – b, ii – a, iii – c, iv – d

(B) i – c, ii – d, iii – a, iv – b

(C) i – b, ii – d, iii – a, iv – c

(D) i – b, ii – c, iii – a, iv – d

1 – C

(E) Complete the correlation:

- Makros : Macro-economics : : Mikros : _____ (T)
- Micro-economics : Tree : : Macro-economics : _____ (T) (Oct' 21)
- Micro-economics : Slicing method : : Macro-economics : _____ (T)
- Macro-economic theory : Income and employment : : Micro-economics : _____ (T)
- Macro Economics : _____ : : Micro Economics : Price theory (Mar' 22)
- General equilibrium : Macro-economics : : _____ : Micro-economics (T)
- Study of individual units : Micro-economics : : _____ : Macro-economics

Micro-economics

Forest

Lumping method

Price theory

Income and
employment

Partial equilibrium

Study of
aggregates



(F) Find the odd word out:

- | | |
|--|-------------------------------|
| 1. Theory of Economic Welfare, Theory of General Price Level, Theory of Product Pricing, Theory of Factor Pricing | Theory of General Price Level |
| 2. Marginalism principle, Slicing method, General equilibrium analysis, Study of individual units | General equilibrium analysis |
| 3. Total investment, Total consumption, Product pricing, Trade cycles | Product pricing |
| 4. Theory of Income and Employment, Macro Theory of Distribution, Theory of Growth and Development, Theory of Economic Welfare | Theory of Economic Welfare |
| 5. Price theory, Lumping method, Policy oriented, Income theory | Price theory |

(G) Suggest an economic term for the given statements:

- | | |
|---|-------------------------------------|
| 1. The two main branches of modern economics. | Micro-economics and Macro-economics |
| 2. The micro-economic theory which deals with the price determination of individual commodity. | Theory of Product Pricing |
| 3. This branch of economics explains determination of currency exchange rates of any two countries. | Micro-economics |
| 4. The method which engages in the study of whole economy rather than its part. | Lumping method |



Identify and explain the concepts from the given illustrations:

1. Gauri collected the information about the income of a particular firm. (T)

Ans: Concept: Micro-economics (or Micro-economic study)

Explanation:

- i. Micro-economics studies the individual economic units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.
- ii. Hence, this illustration relates to the concept of 'Micro-economics' where Gauri has collected the information about the income of a particular firm.

2. Asha collected the information about the income of a particular firm. (Mar' 22)

OR

Madhav collected information about monthly expenditure of a family. (Oct' 21)

Ans: (Refer Q.1 for explanation)

3. Ramesh decided to take all decisions related to production, such as what and how to produce? (T)

Ans: Concept: Free market economy

Explanation:

- i. A free market economy refers to an economy wherein the economic decisions regarding:
 - a. What to produce?
 - b. How much to produce?
 - c. How to produce? etc.
 are taken at individual level. There is no intervention of government or any other agency while taking decisions regarding the production.
- ii. Hence, this illustration relates to the concept of 'free market economy' as Ramesh decided to take all decisions related to production, such as what and how to produce.

4. Shabana paid wages to workers in her factory and interest on her bank loan. (T)

Ans: Concept: Theory of Factor Pricing

Explanation:

- i. The theory of factor pricing explains how the rewards are determined for various factors of production like land, labour, capital and entrepreneur.
- ii. Hence, this illustration relates to the concept of 'theory of factor pricing' as Shabana paid wages to workers (labour) in her factory and interest on her bank loan (capital).



State with reasons whether you agree or disagree with the following statements:

1. The scope of Micro-economics is unlimited. (T)

Ans: No, I do not agree with the given statement. The scope of micro-economics is limited.

Reason:

- i. Micro-economics and Macro-economics are the two main branches of modern economics.
- ii. The term 'micro' is derived from the Greek word 'Mikros' which means small or a millionth part.
- iii. Micro-economics deals with a small part of the national economy.
- iv. It studies individual economic units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.
- v. In simple terms, it is examination of the 'tree' and not the 'forest'.
- vi. The scope of micro-economics is limited to only individual units.
- vii. It doesn't deal with nationwide economic problems like inflation, deflation, balance of payments, poverty, unemployment, population, economic growth etc.
- viii. Hence, the scope of Micro-economics is limited.

2. Micro-economics uses slicing method. (T)

Ans: Yes, I agree with the above statement.

Reason:

- i. Micro-economics is a branch of modern economics.
- ii. It deals with a small part of the national economy.
- iii. It studies the individual economic units such as an individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.
- iv. Micro-economics splits or divides the economy into small individual units and then studies each unit separately in detail.
- v. E.g.:
 - a. Study of individual income out of national income.
 - b. Study of individual demand out of aggregate demand etc.
- vi. Hence, Micro-economics uses slicing method.

3. Micro economics is also known as price theory. (Mar' 20)

Ans: Yes, I agree with the above statement.

Reason:

- i. Micro economics deals with the determination of prices of goods and services.
- ii. It also deals with the determination of prices of factors of production (i.e., land, labour, capital and entrepreneur).
- iii. Hence, Micro economics is also known as price theory.

4. Micro-economics is known as income theory. (T)

Ans: No, I do not agree with the above statement. Macro-economics is known as income theory.

Reason:

- i. Macro-economics is the branch of economics which analyses the entire economy.
- ii. It is basically the study of aggregates.
- iii. In simple terms, it is examination of the 'forest' and not the 'tree'.
- iv. It deals with the total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, inflation, trade cycles, business fluctuations etc.
- v. Macro-economics studies the national income of the country.
- vi. It also explains the causes of fluctuations in national income that lead to business cycles.
- vii. Hence, macro-economics is known as income theory.
- viii. On the other hand, micro-economics is known as the price theory. This is because it deals with determination of the factor as well as product prices.

5. The scope of Macro Economics is unlimited. (Oct' 21)

Ans: Yes, I agree with the above statement.

Reason:

- i. Macro-economic analysis explains which factors determine the level of national income and employment in the country. It also explains the causes of fluctuations in income, output and employment. Therefore, Macro-economics is also called as "Theory of Income and Employment".



- ii. Macro-economic analysis shows how the general price level in the economy is determined. It further explains what causes fluctuations in it. The study of general price level is important on account of problems created by inflation and deflation.
- iii. Macro-economics consists of the theory of economic growth and development. It explains the causes of underdevelopment and poverty. It also suggests strategies for accelerating growth and development.
- iv. The macro theory of distribution deals with the relative shares of rent, wages, interest and profits in the total national income.
- v. Thus, the scope of Macro Economics is unlimited.

6. Macro-economics deals with the study of individual behaviour. (T)

Ans: No, I do not agree with the given statement. Macro-economics deals with the study of the entire economy.

Reason:

- i. Micro-economics and Macro-economics are the two main branches of modern economics.
- ii. The term 'macro' is derived from the Greek word 'Makros' which means large.
- iii. Macro-economics is the branch of economics which analyses the entire economy.
- iv. It deals with the total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, inflation, trade cycles, business fluctuations etc.
- v. In simple terms, it is examination of the 'forest' and not the 'tree'.
- vi. In other words, macro-economics is the study of aggregates.
- vii. Hence, Macro-economics deals with the entire economy and not with study of individual behaviour.

7. Macro-economics is different from Micro-economics. (T)

Ans: Yes, I agree with the above statement.

Reason:

- i. Macro-economics analyses the entire economy. It deals with total employment, national income, national output, total investment, total consumption, total savings, general price level, interest rates, inflation, trade cycles, etc.
- ii. On the other hand, Micro-economics deals with a small part of national economy. It studies the individual units such as individual consumer, individual producer, individual firm, the price of a particular commodity or a factor etc.
- iii. Macro-economics uses lumping method while Micro-economics uses slicing method.
- iv. Macro-economic analysis is based on general equilibrium analysis while Micro-economic analysis is based on partial equilibrium analysis.
- v. The scope of macro-economics is wide while that of micro-economics is narrow or limited.
- vi. Macro-economics is also called theory of income and employment while Micro-economics is also called as price theory.
- vii. Hence, Macro-economics is different from Micro-economics.

Scan the given Q. R. Code in **Quill - The Padhai App** to
view the Chapter Assessment with Answers.

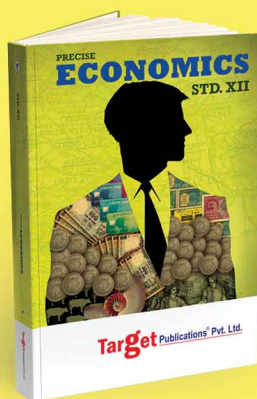




EXPLORE OUR RANGE FOR COMMERCE

1 PRECISE NOTES

For to the point exam oriented study



- Book Keeping & Accountancy
- Economics
- Organisation of Commerce & Management
- Secretarial Practice
- Mathematics & Statistics – I & II
- English Yuvakbharati
- Hindi Yuvakbharati
- Marathi Yuvakbharati

2 SMART PPT

SMART
PPTs

Attractive presentations to make concept learning more engaging & more interesting.

3 PRUDENT TEST SERIES



Ready-made test papers (chapter-wise tests, unit tests & prelim papers) in PDF format along with solutions

Quill
The Padhai App

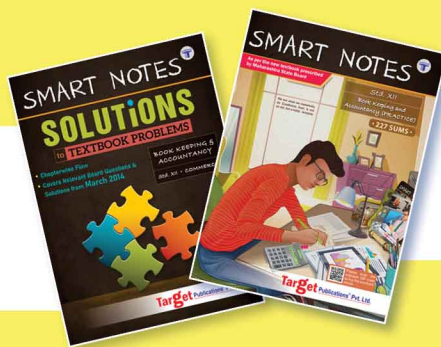


4 QUILL – THE PADHAI APP

To help you study on the move. The mobile app includes PDF files of all the books for you to read.

Outstanding titles for additional practice of
Book Keeping & Accountancy

Detailed solutions of all textual problems & board problems from March 2014.



Practice yourself to perfection with this practice book that covers 227 additional sums

Visit Our Website

Target Publications® Pvt. Ltd.
Transforming lives through Learning.

Address:

2nd floor, Aroto Industrial Premises CHS,
Above Surya Eye Hospital, 63-A, P. K. Road,
Mulund (W), Mumbai 400 080

Tel: 88799 39712 / 13 / 14 / 15

Website: www.targetpublications.org

Email: mail@targetpublications.org



Explore our range
of **STATIONERY**

